



# Memorandum

**TO:** COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Paul Krutko  
Joseph Horwedel

**SUBJECT:** SEE BELOW

**DATE:** March 6, 2009

Approved

Date

3-12-09

**COUNCIL DISTRICT:** City-Wide

**SUBJECT: SPECIAL TENANT IMPROVEMENT & INDUSTRIAL TOOL  
INSTALLATION PROGRAMS**

## **RECOMMENDATION**

Accept the status report regarding the ongoing Special Tenant Improvement (STI) and Industrial Tool Installation (ITI) programs.

## **BACKGROUND**

On June 17, 2008, staff reported to the City Council on the progress of the Special Tenant Improvement and Industrial Tool Installation programs, forwarding a recommendation to make both programs permanent services offered by the Building Division of the Planning, Building and Code Enforcement Department. The proposal to permanently implement these programs included modifications resulting in the STI Program no longer including a construction tax suspension and the removal of the \$1,500 administrative fee associated with the ITI Program. The City Council requested that staff report back to the Community and Economic Development Committee within 6 to 9 months.

### **Special Tenant Improvement**

The City Council approved the Special Tenant Improvement (STI) Program on April 30, 2002, subsequently extending the initial 18-month period three times until June 17, 2008, when the program was made permanent and the Building and Structures Tax suspension incentive was removed. The Program utilizes a coordinated review team, assembled from a number of different City departments, to address all development review issues in a single, expedited review meeting. This method of project review offers significant time savings over traditional plan check methods and gives the customers design team direct access to the staff members reviewing the project.

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### Industrial Tool Installation Program

City Council initially approved the Industrial Tool program through the adoption of Manager Budget Addendum #22 for the fiscal year 2006-2007. The Program was in part a response to concerns expressed by some of San Jose's leading corporate clients regarding delays and a lack of coordination through the permitting process for complex industrial tool installations. City staff responded by researching practices in peer cities and responded with the proposal of the ITI program, which is intended to shorten the tool installation to production cycle through an expedited plan review and inspection process. Like the STI Program, this is done by a coordinated review team, assembled from a number of different City departments. When a participating company wants to initiate a project, the team meets with the facility's staff to review plans, issue permits and establish an inspection schedule.

### ANALYSIS

#### STI Performance to Date

The STI Program was designed to expedite tenant improvements on vacant buildings to make the space ready earlier and reduce an occupying business's exposure to up-front carry costs of vacant buildings prior to occupancy. The STI Program provides San Jose with a competitive edge in a real estate market characterized by historic levels of vacancy. As of December 2008, San Jose confronts nearly 17 million square feet of vacant industrial space (Office, R&D, Industrial and Warehouse). (Exhibit A).

Since its inception almost seven years ago, the STI Program has been extensively utilized and highly successful. The STI program has been an effective tool to provide services to the business and development community. A total of 9,259,000 square feet of space has been permitted since the inception of the STI Program, resulting in an estimated 14,353 jobs being added or retained in the local economy (Exhibit B).

The historical record of the Special Tenant Improvement (STI) Program is compelling. The first phase of the Program demonstrated STI's ability to provide the City with an 18% net revenue gain over the foregone revenue from the construction tax suspension. The second phase of the Program included an extension of incentives for Downtown Core office space. This programmatic change reflected STI's ability to address significant challenges in 2004 when several large tenants relocated out of Downtown for lower lease rates and free parking elsewhere. The results of the second period were strong, 70,600 square feet of permitted space and generated approximately 211 jobs Downtown. The third phase of the STI Program resulted in an additional 2 million square feet of permitted space and generated a further 3,000 jobs.

San Jose's vacancy rates for R&D space remained at high levels as the STI program was renewed for a third time. The fourth phase of the STI program generated significant highlights with a total of 70 projects completed between November 2006 and April 2008 resulting in the improvement and reuse of 3.6 million square feet of industrial space, approximately \$114 million of construction value.

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Following the sunset of the Construction Tax suspension waiver on April 30, 2008, the program has remained strong. 37 projects were completed, totaling over 1 million square feet of vacant commercial and industrial spaces permitted at a construction value of \$36.7 million and the creation of approximately 1,500 jobs, in the seven months that followed. This number of permits is a proportional increase over the previous 17 month phase, however, the construction value and number of jobs created is proportionally lower, a direct reflection of the economic downturn. The list of companies that have used the STI Program in 2008 includes ARM, Stion, Underwriters Laboratories, SVTC, Ericsson, and Wolfe Engineering.

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#### ITI Performance to date

Since its inception in September 2006, the ITI program has supported installation projects and systems from large industrial photovoltaic systems, cell sites and mechanical conditioning systems. In addition to meeting with hundreds of companies, the ITI Program issued over 500 permits for tool and system installations.

The ITI program continues to provide ongoing improved customer service and support for Industrial facilities that undergo frequent tool installation projects as part of their manufacturing or R&D operations. In 2008 the ITI program expanded to include State mandated Enhanced Vapor Recovery systems for gasoline dispensing facilities as well as cellular installations while continuing to provide service to industrial support projects and systems such as large industrial photovoltaic systems and mechanical conditioning systems. The ITI program issued 213 permits between June 1, 2008 and February 28, 2009 which represents over \$24 million dollars of tool and system installation costs. The ITI program continues to successfully partner with the Special Tenant Improvement Program, to facilitate the tool installation associated with several companies on a variety of scales, including Hitachi, Philips Lumileds, Nano Solar, Solo Power, Ebay and others.

The program has remained important through the recent challenging economic climate, in part due to the April deadline for State mandated Enhanced Vapor Recovery systems for gasoline dispensing facilities in addition to regular industrial installation projects. From November 1, 2008 to February 28, 2009, 81 permits have been issued and appointments are currently being scheduled two weeks out.

#### City Economic Development Benefits

The STI and ITI programs continue to be a critical component of the City's business attraction and retention efforts. The flexibility of both programs facilitates projects of all scales including installations at some of the City's largest technology companies as well as many of the new emerging Cleantech companies supported by the City's Green Vision. In summary:

- STI users continue to praise the Program
- Developers such as Equity Office Partners, Legacy, Orchard and Mission West cite its value when deciding whether to do business in San Jose or another City
- The number of projects continues to rise during each period and customer satisfaction remains high

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- The actual number of jobs created or retained is approaching 15,000. This number has a multiplier effect, contributing to the economic success of other San Jose businesses, retail, education and cultural venues as well as strengthening the San Jose quality of life

The success of the programs indicates the recognition of value added by the expedited coordinated review central to both programs. The City's ability to continue providing these services has a direct result on the choices facing local businesses in the current economic climate.

### **EVALUATION AND FOLLOW-UP**

Informational reports regarding the continued operation of the STI and ITI Programs will be provided to the CED Committee and full Council as appropriate.

### **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office, the Office of Economic Development and Planning, Building & Code Enforcement.

### **FISCAL/POLICY ALIGNMENT**

The activities of the STI and ITI program align with Strategic Initiative #5 "Support the Start-Up and Growth of Local Businesses, in Tech as well as Non-Tech Fields" and Initiative #6 "Improve Speed and Predictability of Development Review Process, and Reduce Costs of Operating in San Jose" to support the vision of an Entrepreneurial Environment.

### **COST SUMMARY/IMPLICATIONS**

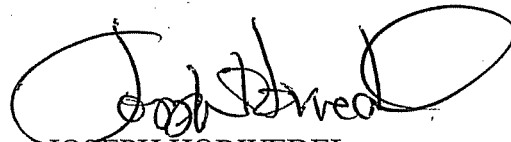
Both the STI and ITI Program continue to allow plan check fees to be deferred until the time of building permit issuance for projects that meet the eligibility requirements. If a permit is not taken out by a customer benefiting from this program, plan check fees will be due no later than twelve (12) months from the application for the plan check service.

### **CEQA**

Not a project.



PAUL KRUTKO  
Chief Development Officer



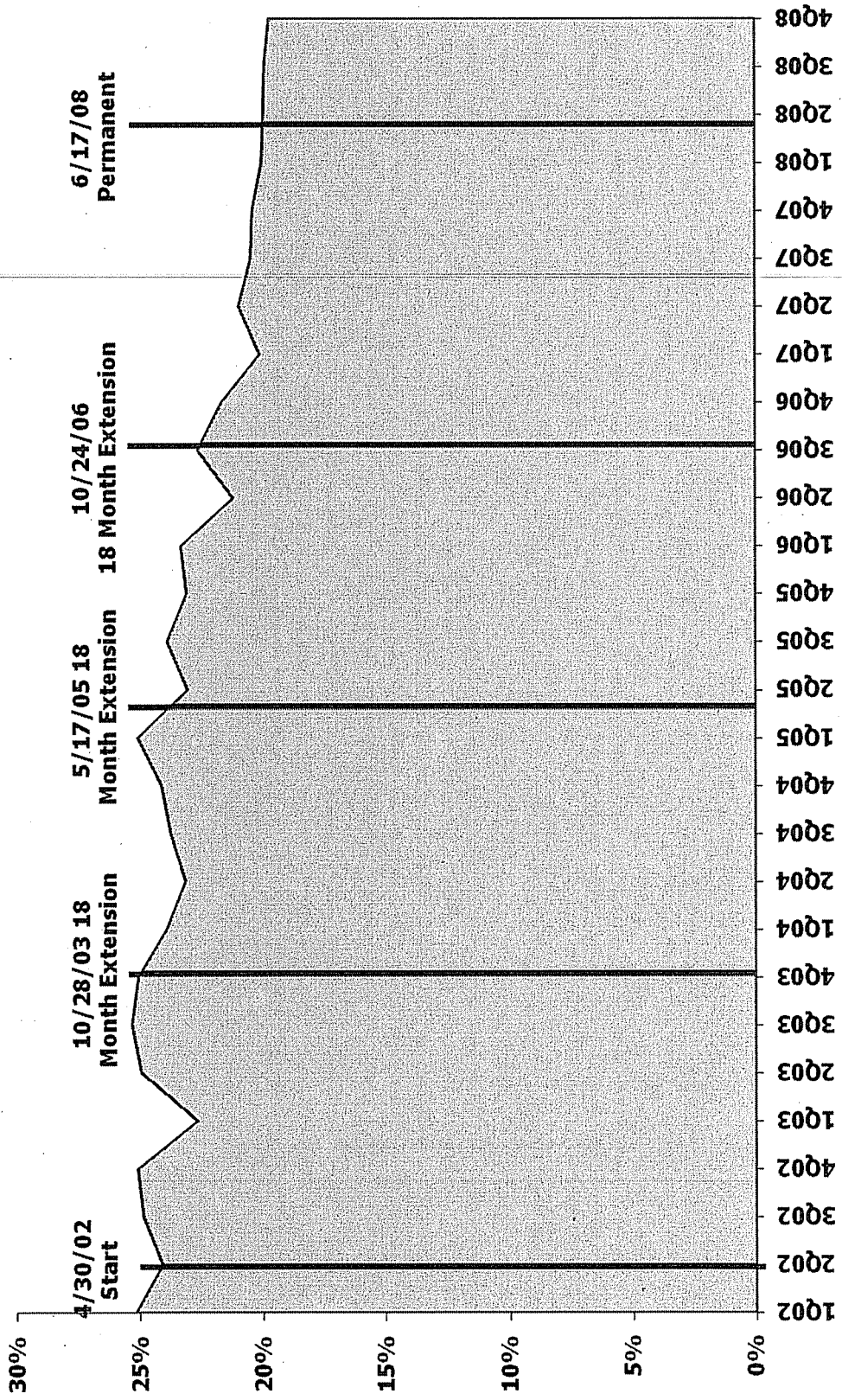
JOSEPH HORWEDEL  
Director, Planning, Building and Code Enforcement

For questions please contact Chris Burton, Economic Development, at 408-535-8114.

Attachments

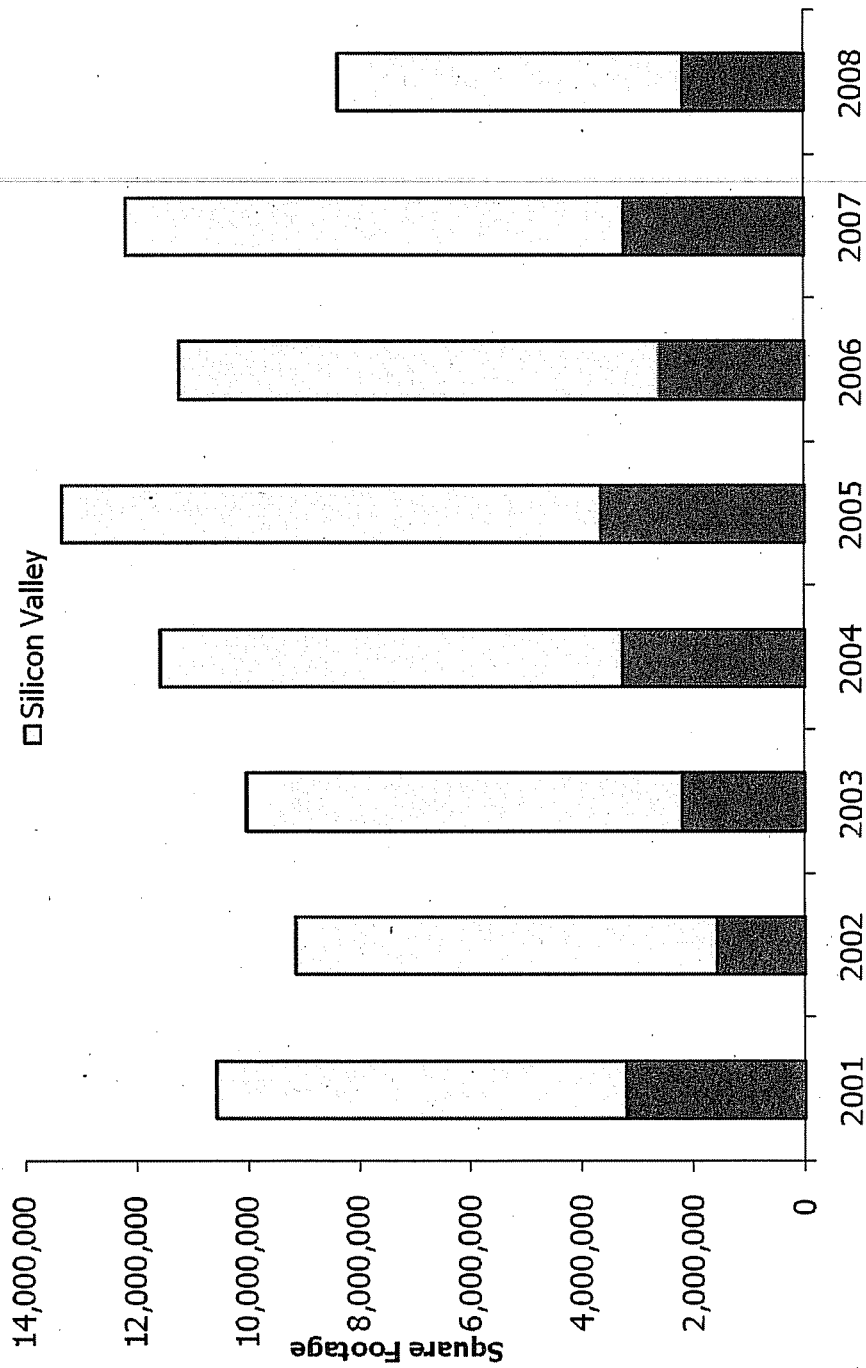
Exhibit A  
Vacancy Rates

San Jose Vacancy Rates for R&D Space



# Absorption Rates

1/4 of Silicon Valley's Gross Absorption has been in San Jose



# Exhibit B

Phase	Area	Timeframe	Projects	Sqft Generated	Jobs	Construction Value	Tax Suspension*
1	Industrial	4/02-10/03	30	1,500,000	2,800	\$33,000,000	\$330,000
2	Industrial	10/03-4/05	44	2,529,400	3,689	\$42,700,000	\$427,000
2	Downtown	10/03-4/05	3	70,600	211	\$1,300,000	\$13,000
	<i>Phase #2 Subtotal</i>		47	<i>2,600,000</i>	<i>3,900</i>	<i>\$44,000,000</i>	<i>\$440,000</i>
3	Industrial	5/05-10/06	51	1,960,000	2,975	\$58,300,000	\$583,000
3	Downtown	5/05-10/06	2	20,000	70	\$1,000,000	\$10,000
	<i>Phase #3 Subtotal</i>		53	<i>1,980,000</i>	<i>3,045</i>	<i>\$59,300,000</i>	<i>\$593,000</i>
4	Industrial	11/06-4/08	61	3,243,000	4,667	90,822,000	\$908,220
4	Downtown	11/06-4/08	9	377,000	1,258	23,148,000	\$231,480
	<i>Phase #4 Subtotal</i>		70	<i>3,620,000</i>	<i>5,925</i>	<i>113,970,000</i>	<i>\$1,139,700</i>
5	Industrial	5/08-12/08	34	1,046,000	1,441	35,124,000	\$0
5	Downtown	5/08-12/08	3	13,000	42	1,579,000	\$0
	<i>Phase #5 Subtotal</i>		37	<i>1,059,000</i>	<i>1,483</i>	<i>36,703,000</i>	<i>\$0</i>
	<b>Program Total</b>		<b>237</b>	<b>9,259,000</b>	<b>14,353</b>	<b>253,973,000</b>	<b>2,172,700</b>

\*On April 30, 2008 the Construction Tax suspension waiver sunset